



www.cloverland.com

2916 W. M-28  
Dafter, Michigan 49724-9761

(906) 635-6800 • Fax (906) 635-6815  
Michigan Toll Free 1-800-562-4953

### The Single Business Tax and the Cloverland Electric Cooperative

My name is Eugene Kanikovsky and I am the Director of Finance for the Cloverland Electric Cooperative. I appreciate the opportunity to submit the following comments regarding the proposed changes to the Single Business Tax and its impact on our Electric Cooperative.

Cloverland Electric Cooperative provides service to 15,000 consumers, located in the following counties: Chippewa, Mackinac, Luce, Schoolcraft. Electric cooperatives are not-for-profit, member-owned and -controlled utilities governed by a board of directors elected from the membership. At the end of each fiscal year, all margins, or profits, earned by the Cooperative are allocated back to the members based on their patronage. Electric cooperatives are subject to the single business tax, personal property tax, tax on unrelated business income, use tax, sales tax, and we collect and remit sales tax on energy sales to member consumers. In essence, electric cooperatives pay all taxes except federal income tax, which is based on profits.

The rural nature of our service territory presents a major operating challenge. We maintain over 2,500 miles of line to serve approximately 18,000 meters. This results in an average of approximately seven customers per mile of line. This compares to approximately 35 customers per mile for the average investor-owned utility and over 150 customers per mile for some municipal systems.

In 1999, the State of Michigan changed the formula for calculating the Single Business Tax. The result was a significant increase in the tax liability for our Electric Cooperative. Prior to the change in 1999, the formula included a deduction for capital acquisitions. The change put in its place an investment tax credit. This resulted in an approximate increase of 154 percent in our single business tax liability. The change in 1999 also implemented a phase-out of the single business tax, which we supported. However, since the freeze on the SBT phase-out was activated several years ago, it has become apparent that the phase-out on the SBT will not continue.

The Governor's proposal to reduce the SBT rate from 1.9% to 1.2% represents an approximate 37 percent reduction in the Cooperative's single business tax liability. Based on the proposal, the Cooperative's resulting SBT liability will be approximately 19% higher than what the Cooperative paid in 1999, but 37% lower than what we are currently paying. This is a significant reduction in the SBT for our Electric Cooperative and a benefit to the member consumers we serve. Therefore, we support the Governor's proposal.

Thank you for the opportunity to present my comments regarding the Single Business Tax and its impact on our Electric Cooperative.

Sincerely,

Eugene Kanikovsky